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AGENDA ITEM #4119

WATER/SNR/MXK/EV8:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4512
December 16, 2004**

R E S O L U T I O N

**(RES. W-4512), DEL ORO WATER COMPANY (DOWC), COUNTRY
ESTATES DISTRICT (CE). ORDER AUTHORIZING A GENERAL
RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE
OF \$3,063 OR 4.22% IN 2004.**

SUMMARY

By Draft Advice Letter, filed on September 24, 2003, DOWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2004, this resolution grants an increase in gross annual revenues of \$3,063 or 4.22%, which is estimated to provide a return on rate base of 8.56%.

BACKGROUND

DOWC, a Class B water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 20.4% or \$14,808 for test year 2004. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. DOWC's request shows 2004 gross revenues of \$72,512 at present rates, increasing to \$87,320 at proposed rates. DOWC is requesting a return-on-rate base of 8.81%.

The present rates became effective on June 5, 2003, by Res. No. W-4401, which authorized an increase in rates of \$4,719 or 7% to cover expenses incurred in purchased power costs. The last general rate increase was granted on October 10, 2001, by Res. No. W-4301, which authorized gross revenue increase of \$29,788 or 82.9%.

Country Estates District (CE) is owned and operated by Del Oro Water Company. CE employs one part time field employee, Porter Fisher, to manage the system on-site. Administrative functions are executed at the company's general office in Chico, California.

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DOWC provides water service to 89 residential customers in the city of Bakersfield, Kern County. Water is obtained from a primary well, Well 03 (Cindy), which is equipped with a 100 hp motor and produces an estimated 540 gpm. The water is discharged to a 40,000-gallon ground level steel storage tank and pumped, using a 20 hp booster pump, through a liquid hypo chlorinator to a 3,000-gallon steel pressure tank. The water is then supplied to the distribution system by a booster pump to the customers through 6- to 8-inch pipelines.

There is a secondary well, Well 01 (Weedpatch) that operates as a standby. The Weedpatch well is equipped with a 40-hp motor and has a 450 gpm pumping capacity. CE does not purchase any water nor does it have any inter-ties to any other systems. CE's water supply is sufficient to meet its customer demand and DOWC is in compliance with the provisions of General Order 103. However, the average levels of total dissolved solids (TDS) in the water from both wells in 2003 were high, ranging from 940 mg/l to 990 mg/l for Well 01 and 1,100 mg/l to 1,670 mg/l for Well 03. The Maximum Contaminant Level (MCL) or allowable level for TDS ranges from recommended level of 500 mg/l to upper level of 1,000 mg/l. The short term MCL for TDS is 1,500 mg/l.

In addition, the average nitrate levels in Well 01 ranged from 37 mg/l to 45 mg/l and in Well 03 it ranged from 23 mg/l to 28 mg/l. The average nitrate level in Well 01 is marginally in compliance. The maximum allowable level nitrate is 45 mg/l.

DISCUSSION

DOWC provides service to CE, which is located approximately nine miles east of Bakersfield. In addition, DOWC provides water to the City of Ferndale in Humboldt County, the County of Johnson Park in Shasta County, and Stirling City (north of the Town of Paradise), Butte County. Del Oro also provides water to Lime Saddle District located south of the Town of Paradise, Pine Mountain, and Pine Flat Districts, located about two miles east of California Hot Springs, Tulare County. DOWC also operates two water systems (the Paradise Pine District and Magalia District) in an unincorporated area known as Magalia in Butte County.

The Water Division (Division) made an independent analysis of CE's summary of earnings. Appendix A shows DOWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates for test year 2004. Appendix A also shows the difference between DOWC's and the Division's estimates of revenue, expenses, and rate base. DOWC was informed of the Division's differing views of revenues, expenses and rate base and agrees with Division's findings. Some of CE's expenses are common expenses that are allocated to all of DOWC's eight districts and

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CE based on a formula adopted in the 1991 general rate case of DOWC's Paradise Pines District. The formula allocates to CE a percentage of the total expenses. The percentage of 1.33% is based on the number of CE's connections compared with the total number of connections in the DOWC's system including CE.

On March 23, 2004, DOWC was found in violation of water quality standards by the Department of Health Services (DHS). The water supply produced by its two wells, Well 01 and Well 03 are marginally in compliance with the nitrate and TDS Maximum Contaminant Levels. As a result, DHS ordered DOWC to stop extending service to any applicant in CE until DOWC has taken necessary measures to correct the problem and to secure the approval of DHS for any service extension.

To address these contamination issues, DOWC has hired consulting engineers, Luhdorff and Scalmanini (LSCE) to help it evaluate and find solutions to CE's water quality problems. LSCE believes that connecting to the adjacent water system, East Niles Community Services District, is the most cost effective alternative source of water supply. Mr. Tim Ruiz, General Manager of East Niles, has indicated to the Division that East Niles is neither interested in connecting CE to its system nor willing to sell water to CE because of liability issues raised by its lawyers.

As a short-term solution, DOWC has been authorized to borrow a \$100,000 loan to install equipment, make other improvements, and develop a Water Master Plan as required by the DHS' order. DOWC estimates that it will spend the \$100,000 loan as follows:

1. \$30,000 – install a second booster pump and piping at the Well 03 site. Both boosters would be piped in parallel and be electrically wired to alternate duty. This will provide the backup in the event of booster pump failure and prevent depressurization of the system should one booster fail.
2. \$45,000 – install an emergency generator to provide power at the Well 03 site in the event of a loss of power. Provide a 175kw diesel powered generator and automatic transfer switch. This will permit both the well pump and the booster system to maintain system pressure during power outage events.
3. \$25,000 – cost of the development of a Water Master Plan. This would provide a planning document that would address long-term water system improvements, the estimated cost of those improvements, a review and analysis of future growth potential, water usage trends, fire suppression requirements, alternatives for system water supply that include water well

construction, an inter-tie with an adjacent agency, or the construction of a treatment system, system computer modeling to investigate system problems and develop pipeline replacement sizing criteria, develop a program to phase out aging wells, a pump replacement/repair program for replacement of and/or improvement of the operating efficiency of aging pumping equipment, and the installation of a state-of-the-art SCADA (Supervisory Control and Data Acquisition) system, to provide for monitoring of system operation, equipment failure alarms and improving overall system operational efficiency.

In order to include these additional investments in rate base, DOWC requests that it should be authorized to file two separate advice letters for CE once the additions to the plant have been completed and are used and useful.

The major differences in expenses were in the (1) Purchased Power, (2) Other Volume Related Expenses, (3) Employee Labor, (4) Materials, (5) Management Salaries, (6) Depreciation and (7) Taxes Other Than Income Accounts. The Division estimates were made using actual billings and past-recorded expenses. The Division audited actual bills for purchased power to make its estimates, and relied on past-recorded amounts and projected costs for employee labor, other volume related expenses, materials, management salaries, depreciation, and property taxes.

DOWC's draft advice letter requested rates that would produce a return-on-ratebase of 8.81%. DOWC is a Class B water utility for rate-making purposes for all districts. The Water Division's Audit & Compliance Branch has conducted an analysis of the financial market changes within the last year and the high operational risk faced by Class B water companies and has determined that the appropriate range for return on rate base is 8.56%. Tables 1 and 2 below show how DOWC's Rate of Return and Return on Equity were calculated.

Table 1
Del Oro Group of Companies
Cost of Capital

Description	Capital Ratios	Cost Factors	Weighted Cost Factors
Long Term Debt	62.53%	7.06%	4.42%
Common Equity	37.47%	11.06%	4.15%
Rate of Return	100%		8.56%

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Division recommends using 8.56% as the appropriate rate of return. Using this figure, Division calculates a revenue requirement of \$75,575.

Based on current rates, DOWC's annual revenue for the test year 2004 is \$72,512. At this recommended test year revenue, the increase will be \$3,063 or 4.22%, over present rates, resulting in test year revenue of \$75,575.

The summary of earnings in Appendix A shows a recommended return-on-rate base of 8.56% at adopted rates.

Decision 92-03-093 allows Class B utilities to recover up to 50% of fixed costs in their readiness to serve charge. The rates shown in Appendix B recover 50% of the utility's fixed cost. Del Oro Water Company, Country Estates District's current rate structure is contained in Schedule No. CE-1A, Annual General Metered Service. The new rate schedule is in Appendix B.

At the Division's recommended rates shown in Appendix B, the bill for a typical residential customer with a 1-inch meter using 3,500 cubic feet of water will increase from \$70.11 to \$74.50 per month, or 6.3%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

The Division staff audited operating expenses, including salaries and contracting fees, purchased power, insurance expenses, income and other taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included those expenses that were deemed reasonable and prudent.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer prior to February 9, 2004. The Division and DOWC received two letters opposed to the rate increase. The letters also expressed concern about water pressure and quality. DOWC responded promptly to the letters and shared its responses with the Division. Division was satisfied with DOWC's responses. In addition, water pressures were taken by Division's staff at several locations throughout CE's service area during a field trip conducted on March 11, 2004, and were found to be within the range prescribed by General Order No. 103. During the past year, four informal complaints were filed with the Commission's Consumer Service Division complaining about water quality issues, low water pressure, disruption in water services, protests against a proposed subdivision in CE's service area and proposed rate increase.

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The public meeting was held Thursday, March 11, 2004, at the Fairfax Elementary School Gymnasium located in Bakersfield in the evening to ensure maximum public participation since many customers work during the day. The meeting began at 7:05 p.m. with 36 customers present. DOWC serves 89 metered- customers in the City of Bakersfield.

The Division's representative explained Commission procedure and purpose of the meeting. DOWC's representative started by addressing the concerns regarding a planned subdivision within Del Oro's existing service area. He also gave a presentation on the need for the increase to meet actual expenses without any upgrades to the existing services. He further stated that in order to upgrade the existing water facilities more equipment is needed and more work has to be done. The customers expressed dismay over the planned rate increase considering that services have not improved since the last rate increase two years ago. Some customers stated that they should lower the rates instead of increasing it since they did not get anything out of the previous increase.

The balance of the meeting consisted of comments and questions by the customers. Most of the comments and questions were complaints about the water quality, low water pressure, lack of backup facilities and high water prices. Customers also expressed distrust of the water company.

COMPLIANCE

Country Estates District is currently providing water service according to the standards of General Order 103, and has filed its Annual Reports regularly. DOWC needs to update its tariff book to make these changes: Schedule LC (Late Payment Charge), and Rule 5, Special Information required on Forms. In addition, there is a DHS Compliance Order outstanding regarding violation of upper secondary maximum contaminant level for total dissolved solids (TDS) in March 2004 and nitrate maximum contaminant level were found to be marginally in compliance in the same document. DHS is requiring DOWC to:

- Provide reliable and adequate source of pure, wholesome, healthful, and potable water, which is in compliance with all primary and secondary drinking water standards.
- Submit a plan and time schedule to address water quality issues.
- Install a second booster pump at Well 03 to improve reliability and service of the water system.
- Not extend service to the proposed 15 new homes until DHS and the Commission provide approval.

Division recommends that DOWC submit a water master plan addressing issues such as quality, adequacy, and reliability of its water supply in the Country Estates District no later than twelve months after effective date of this resolution. Division also recommends that DOWC should not extend service to any new applicant until it has obtained approval to do so from DHS and Division.

FINDINGS

1. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. DOWC should update the following rules in its tariff book: Schedule LC (Late Payment Charge), and Rule 5 (delete Southern California office).
5. DOWC should make the improvements ordered by DHS starting with securing a second booster pump to ensue reliability of its water services.
6. DOWC should not extend service to any applicant until it has secured approval to do so from DHS.
7. DOWC should submit a water master plan to the Division addressing issues such as quality, adequacy and reliability of its water supply in the Country Estates District no later than twelve months after the effective date of this resolution.
8. In order to recover its investment through rate base, DOWC needs to file two advice letters once the plant additions have been completed and are being used and useful.
9. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company-Country Estates District, to file an advice letter incorporating the summary of earnings and the revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. The effective date of the revised schedule shall be five days after the date of filing.
2. Del Oro Water Company, Country Estates District, is authorized to increase its annual revenues by \$3,063 or 4.22%, based on reasonable rates for 2004.
3. Del Oro Water Company, Country Estates District, shall update the following rules in its tariff book: Schedule LC (Late Payment Charge), and Rule 5 (Special Information Required on Forms).
4. Del Oro Water Company, Country Estates District, should not extend service to any applicant until it has secured approval to do so from DHS.
5. Del Oro Water Company, Country Estates District, should make the improvements ordered by DHS starting with securing a second booster pump to ensure reliability of its water services.
6. Del Oro Water Company, Country Estates District, should submit a water master plan to the Division addressing issues such as quality, adequacy, and reliability of its water supply no later than twelve months after the effective date of this resolution.
7. In order to recover its investment through rate base, Del Oro Water Company, Country Estates District is authorized to file two advice letters once the plant additions have been completed and are being used and useful.

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8. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 16, 2004; the following Commissioners voting favorably thereon:

STEPHEN LARSON
Executive Director

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			Appendix A			
			Del Oro Water Co. Country Estates Dist.			
			Summary of Earnings			
			Test Year 2004			
			Utility Estimated		Branch Estimated	
			Present	Requested	Present	Requested
Item			Rates	Rates	Rates	Rates
Operating Revenue						
General Metered Sales			\$ 72,512	\$ 87,320	\$ 72,512	\$ 87,320
Private Fire			\$ -	\$ -	\$ -	\$ -
Other Water Revenue			\$ -	\$ -	\$ -	\$ -
Other Unmetered Revenue			\$ -	\$ -	\$ -	\$ -
Total			\$ 72,512	\$ 87,320	\$ 72,512	\$ 87,320
Operating Expenses						
610 Purchased Water			\$ -	\$ -	\$ -	\$ -
615 Purchased Power			\$ 23,105	\$ 23,105	\$ 12,757	\$ 12,757
618 Other Volume Related Expenses			\$ 5,025	\$ 5,025	\$ 4,417	\$ 4,417
630 Employee Labor			\$ 16,024	\$ 16,024	\$ 15,762	\$ 15,762
640 Materials			\$ 1,453	\$ 1,453	\$ 1,131	\$ 1,131
650 Contract Work			\$ 2,787	\$ 2,787	\$ 2,787	\$ 2,787
660 Transportation Expenses			\$ 3,261	\$ 3,261	\$ 3,261	\$ 3,261
664 Other Plant Maintenance			\$ 54	\$ 54	\$ 54	\$ 54
670 Office Salaries			\$ 2,459	\$ 2,459	\$ 2,459	\$ 2,459
671 Management Salaries			\$ 2,942	\$ 2,942	\$ 1,420	\$ 1,420
674 Employee Benefits			\$ 632	\$ 632	\$ 632	\$ 632
676 Uncollectibles Expense			\$ 292	\$ 292	\$ 292	\$ 292
678 Office Services & Rentals			\$ 1,143	\$ 1,143	\$ 1,143	\$ 1,143
681 Office Supplies & Expenses			\$ 1,376	\$ 1,376	\$ 1,376	\$ 1,376
682 Professional Services			\$ 397	\$ 397	\$ 397	\$ 397
684 Insurance			\$ 4,073	\$ 4,073	\$ 4,073	\$ 4,073
688 Regulatory Commission Expense			\$ 1,689	\$ 1,689	\$ 1,689	\$ 1,689
689 General Expenses			\$ 1,693	\$ 1,693	\$ 1,792	\$ 1,792
Subtotal			\$ 68,405	\$ 68,405	\$ 55,441	\$ 55,441
Depreciation			\$ 4,171	\$ 4,171	\$ 4,663	\$ 4,663
Taxes other than Income			\$ 3,391	\$ 3,391	\$ 3,623	\$ 3,623
Income Taxes			\$ 800	\$ 1,948	\$ 1,978	\$ 3,539
Total Deductions			\$ 76,767	\$ 77,915	\$ 65,705	\$ 67,267
Net Revenue			\$ (4,255)	\$ 9,405	\$ 6,807	\$ 20,053
Rate Base						
Average Plant			\$ 117,491	\$ 117,491	\$ 118,478	\$ 118,478
Ave. Accumulated Depreciation			\$ (16,420)	\$ (16,420)	\$ (15,893)	\$ (15,893)
Net Plant			\$ 101,072	\$ 101,072	\$ 102,585	\$ 102,585
Less: Advances					\$ -	\$ -
Contributions			\$ -	\$ -	\$ -	\$ -
Plus: Working Cash			\$ 5,700	\$ 5,700	\$ 4,620	\$ 4,620
Materials & Supplies						
Rate Base:			\$ 106,772	\$ 106,772	\$ 107,205	\$ 107,205
Rate of Return			-3.99%	8.81%	6.35%	18.71%

APPENDIX B**Del Oro Water Company
Country Estates District****Schedule No. 1****GENERAL METERED SERVICE****APPLICABILITY**

Applicable to all metered water service furnished to the County Estates District Service Area.

TERRITORY

Tracts Nos. 1951, 2552, and 2553 and vicinity, located approximately 9 miles east of Bakersfield, Kern County.

RATES

Quantity Rates:

All water, per 100 cu. ft.	\$ 1.297 (I)
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Service Charge:

	Per Meter
	<u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 11.64 (I)
For 3/4-inch meter	\$ 17.46 (I)
For 1-inch meter	\$ 29.09 (I)
For 1-1/2-inch meter	\$ 58.19 (I)
For 2-inch meter	\$ 93.10 (I)
For 3-inch meter	\$174.56 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12- month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the residents may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods..
2. The established billing cycle for water used is monthly.

(continued)

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APPENDIX B

Sheet 2

Del Oro Water Company
Country Estates District

Schedule No. 1
(continued)

GENERAL METERED SERVICE

SPECIAL CONDITIONS (continued)

3. The opening bill for meter service, except upon conversion from flat rate service, shall be established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customers.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF
5. A late charge will be imposed per Schedule No. LC.
6. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord of property owner.
7. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$4.67. This charge offsets the Department of Health Services fee as billed to the County Estates District for Fiscal Year July 1, 2003 to June 30, 2004. (C)
8. As authorized by the California Public Utilities Commission all bills are subject to a one-time surcharge of \$20.92 collected over three billing cycles at the rate of \$6.97; 6.97 and \$6.98 per cycle, respectively. This charge offsets the expenses resulting from the Environmental Protection Agency's adopted National Primary Drinking Water Regulations for water testing and maintain standards under the Surface Water Treatment Rule. (C)

(END OF APPENDIX B)

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APPENDIX C

Del Oro Water Company
Country Estates District

COMPARISON OF RATES

	Per Service Connection Per Month		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Service Charges:			
For 5/8 x 3/4 - inch meter	\$ 18.60	\$ 11.60	-37.6%
For 3/4 - inch meter	\$ 20.90	\$ 17.50	-16.3%
For 1 - inch meter	\$ 27.90	\$ 29.10	4.3%
For 1 1/2 inch meter	\$ 55.00	\$ 58.20	5.8%
For 2 - inch meter	\$ 88.00	\$ 93.10	5.8%

Quantity Charge:

Potable Water:	All use, per 100 cu. ft.	\$ 1.206	\$1.297	7.5%
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A monthly bill comparison for a customer with a 1-inch meter is shown below:

<u>Usage 100 cu. ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	27.90	29.10	1.20	4.3%
5	33.93	35.95	1.66	4.9%
10	39.96	42.07	2.11	5.3%
15	45.99	48.56	2.57	5.6%
20	52.02	55.04	3.02	5.8%
30	64.08	68.01	3.93	6.1%
35 (avg.)	70.11	74.50	4.39	6.3%
40	76.14	80.98	4.84	6.4%
50	88.20	93.95	5.75	6.5%

(END OF APPENDIX C)

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Del Oro Water Company
Country Estates District

ADOPTED QUANTITIES

Test Year 2004

Purchased Power

Pacific Gas & Electric Company
Schedule PA-1

Total Pumped CCF	36,978
Total KWH	93,393
KWH/CCF	2.5

Composite Power Rate	\$0.138
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Property Taxes	\$1,457
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Service Connections

Meter Size	Number of Customers
Potable Water	
5/8 x 3/4 inch meter	16
3/4 inch meter	0
1 inch meter	73
1 1/2 inch meter	0
2 inch meter	0
3 inch meter	0

Consumption	36,900 Ccf
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Del Oro Water Company
Country Estates District

ADOPTED QUANTITIES

Test Year 2004

Tax Calculations

State Tax Rate:	8.84%
Federal Tax Rate:	15% for 1 st \$50,000 taxable income
	25% for next \$25,000 taxable income
	34% for next \$25,000 taxable income
	39% above
Operating Revenues	\$ 75,575
Expenses	\$ 55,441
Depreciation	\$ 4,663
Taxes other than Income	\$ 3,623
Taxable Income for State	\$ 11,847
State tax	\$ 1,047
Taxable Income for Federal	\$ 10,800
Federal tax	\$ 1,620

(END OF APPENDIX D)